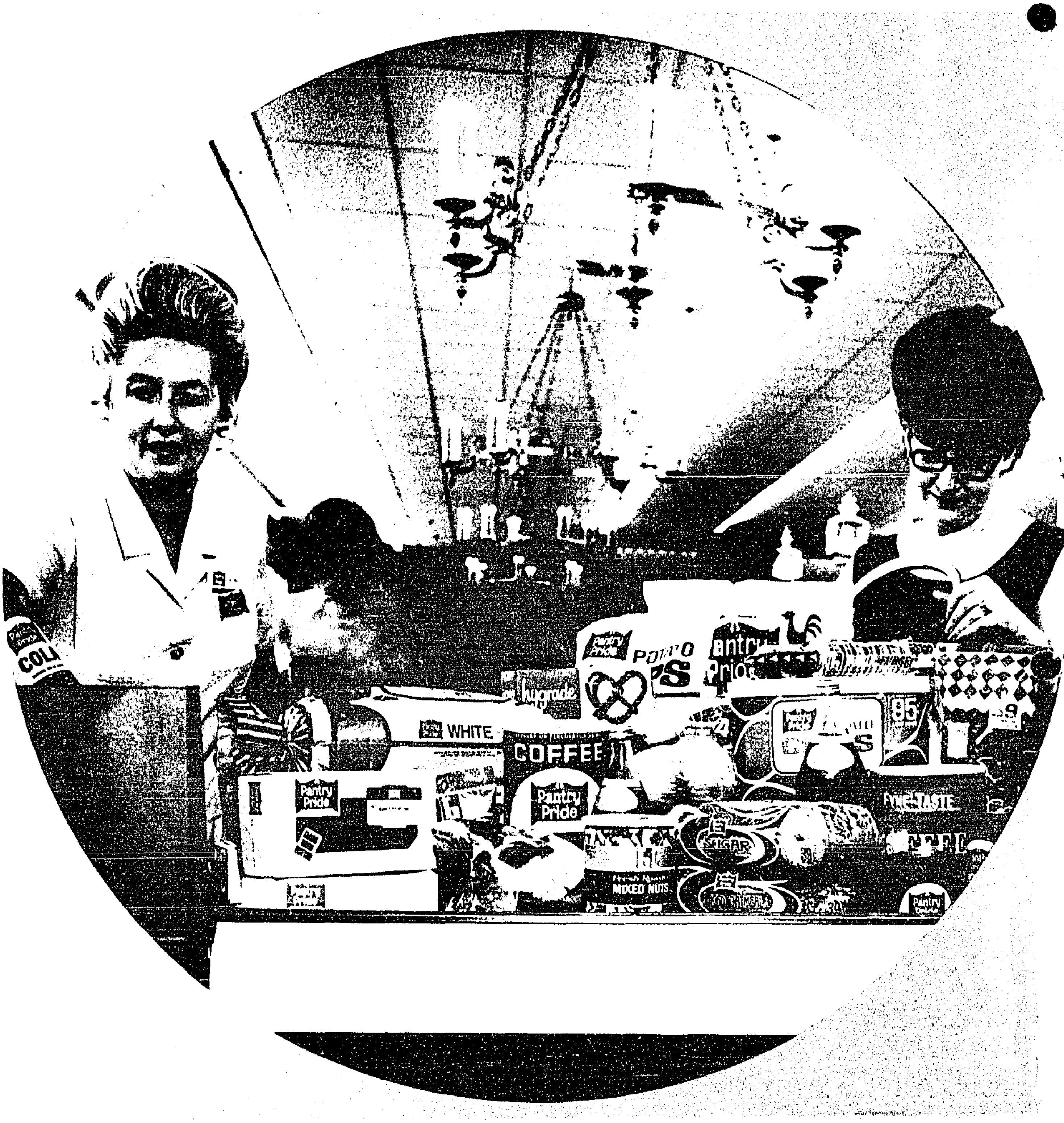

Fashion Center

Manufacturing of our own private label products has been expanded in recent years. Today, Company-owned bakeries, beverage and coffee roasting plants produce an ever-growing variety of products sold through our supermarkets.



For the fiscal year ended Aug. 1, 1970

The Year In Brief

FISCAL YEAR	(52 weeks) 1970	(53 weeks) 1969
Sales	$1,762,005,000	$1,555,431,000
Income Before Extraordinary Item	$ 10,469,000	$ 11,382,000
Extraordinary Item	$ 167,000	$ 680,000
Net Income	$ 10,636,000	$ 12,062,000
Per Share of Common Stock:		
Income Before Extraordinary Item	$ 1.43	$ 1.57
Extraordinary Item	$ .02	$ .09
Net Income	$ 1.45	$ 1.66
Dividends Paid in Cash:		
Preferred Stock	$ 126,000	$ 154,000
Common Stock	$ 6,519,000	$ 6,448,000
Earnings Retained in the Business	$ 3,991,000	$ 5,460,000
Current Assets	$ 238,805,000	$ 210,237,000
Current Liabilities	$ 134,203,000	$ 112,504,000
Working Capital	$ 104,602,000	$ 97,733,000

ANNUAL MEETING—The annual meeting of shareholders will be held Tuesday, November 17, 1970, at 2 P.M., local time, in the Burgundy Room of the Bellevue Stratford Hotel, Broad and Walnut Sts., Philadelphia. Shareholders are cordially invited to attend.

To Our Shareholders

We are pleased to report the achievement of record sales of $1.76 billion for the fiscal year ended August 1, 1970. This was a 14% increase over the preceding year and continued our unbroken record of year-to-year sales gains. Net operating income, however, declined by 9% as a result of higher than anticipated costs of our accelerated program of converting conventional food markets to discounting, higher interest costs and other increased operating costs, which were not fully reflected in retail prices.

Although current earnings were affected by our conversion effort, we believe that the discounting program we have undertaken will provide the basis for long-term profitability.

During the year, 67 supermarkets were changed over to discounting operations. These markets carry the name of Pantry Pride or Food Fair Quality/Discount. Additionally, we opened 24 new food stores, of which 21 were discounters. As a result of our selective conversion program which has extended over a five-year period, the majority of our food stores are now in discounting, and the largest share of supermarket sales come from these units. We shall continue this program through the current fiscal year.

We have been pleased by the excellent performance of our J. M. Fields stores during a period when department store sales were generally sluggish. Three J. M. Fields stores were opened during the year, two were enlarged and two remodeled. We expect to open 12 J. M. Fields stores in the coming year.

We purchased and extensively renovated a meat slaughtering plant in Denver, Colorado, where full-scale operations have begun. The plant replaces a smaller facility in Denver, which we previously occupied under a lease.

In a step toward further expansion of our manufacturing operations, as well as development into other aspects of food service, we entered into a joint venture with the Horn & Hardart Baking Co., Philadelphia, which will involve food manufacturing, institutional purveying and industrial feeding. We have the majority interest in the new enterprise known as Blue Grass Food Services, Inc. Under terms of the agreement, Blue Grass Food Services will lease Horn & Hardart's 400,000-square-foot commissary building in Philadelphia, to expand the processing of raw and prepared foods for wholesale and retail food distribution and to enter the field of in-plant feeding.

During the year, two directors were appointed to replace Harold W. Scott, deceased, and Gen. Omar N. Bradley. They are William P. Davis, III, vice chairman of The First Pennsylvania Banking & Trust Company, and Harold Friedland, corporate vice president and director of buying and merchandising. Mr. Davis has a distinguished career in banking extending over more than three decades. Mr. Friedland has served the Company for more than 20 years and has broad experience in store operations and merchandising.

In addition, two corporate vice presidents were elected by the directors. They are Jacob I. Gottlieb, president of J. M. Fields, and Seymour G. Mandell, director of produce operations. Mr. Gottlieb has been president of J. M. Fields since 1968. Previously, he served three years as executive vice president. Mr. Mandell has served as director of produce buying, processing and merchandising operations since 1963.

Since the start of the new fiscal year, August 2, 1970, five new supermarkets and three J. M. Fields stores have been opened and 21 supermarkets converted to discounting operations.

While the last fiscal year did not produce the net profit results we expected, we are confident that with a tightening of cost controls and more productive use of our physical and human resources, together with aggressive merchandising programs, our earnings will again assume an upward trend.

Sincerely,

Louis Stein

Louis Stein
Chairman

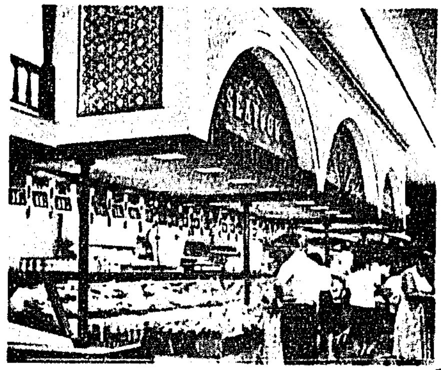
Jack Friedland

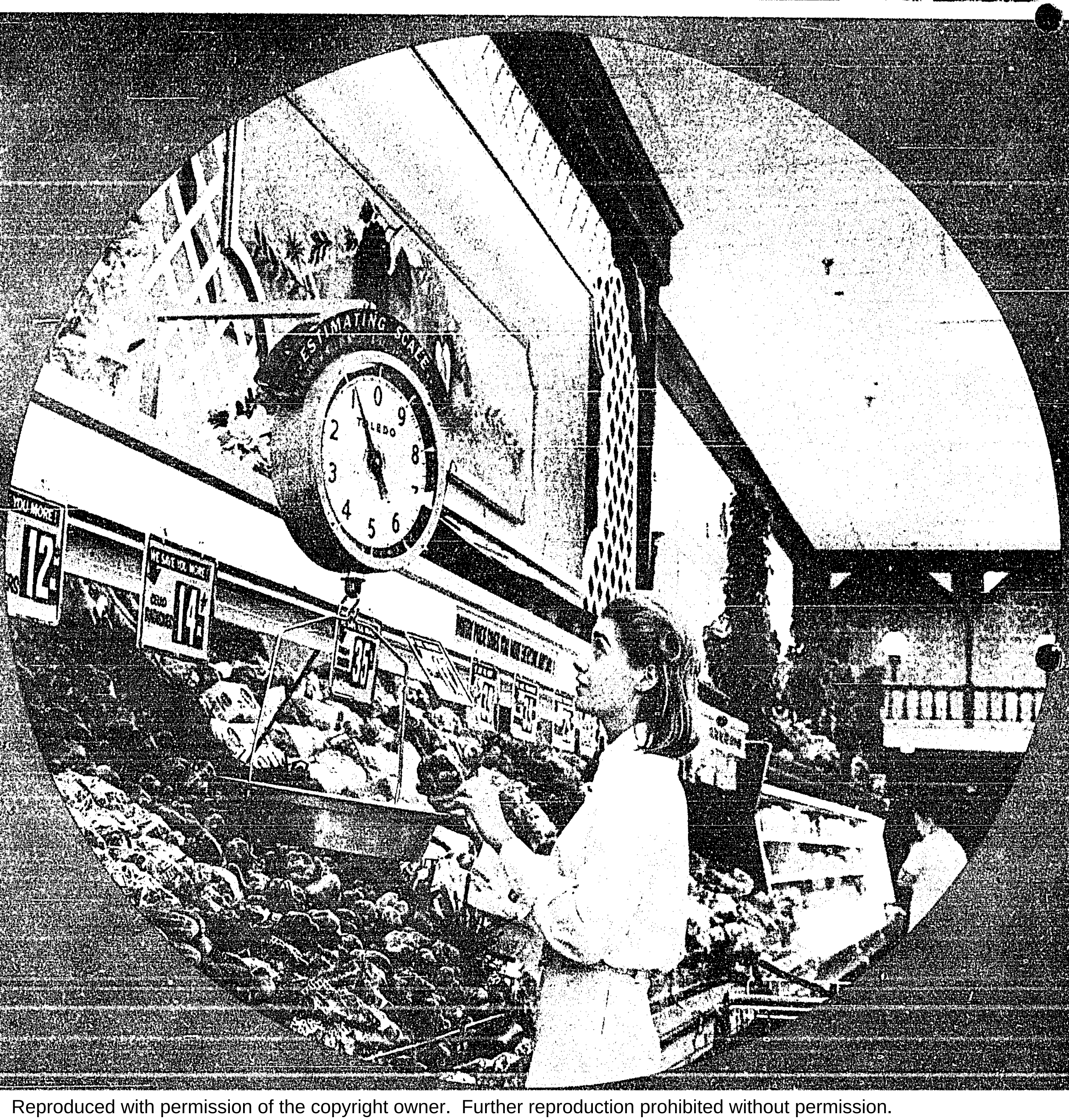
Jack Friedland
President

October 28, 1970

Louis Stein

Jack Friedland




ESTIMATING SCALE
TOLEDO
YOU MORE
WE SAVE YOU MORE

Supermarket Operations

Our program of converting conventional supermarkets to discounting operations was accelerated during the year. This program is carried out on a selective basis where our market research indicates a clear consumer preference for price savings over other sales inducements such as trading stamps, contests and games.

Sixty-seven markets were changed over to discounting last year and 21 of the 24 new markets we opened were discounters. Thirty-nine older markets were closed.

The excellent sales gains achieved through our discounting program demonstrate the soundness of the concept. In many market areas, we have strengthened and expanded our share of food store sales. However, the inflationary impact on the economy during this period of accelerated conversion to discounting added considerably to our conversion costs.

In face of these and other higher costs, we have intensified our programs to achieve greater efficiencies, all along the distribution line. For example, computers are being utilized for determination of optimum truck scheduling, and detailed studies of operations performed at store level are being made, in an effort to schedule employes most productively.

Another program of interest is one that has been carried on at our store in Baldwin Hills, California, and will be tested shortly on the east coast. In this test, an electronic cash register is linked to a centrally located computer. The system eliminates the necessity for the cashier to ring up the price of the item. Each item is coded and when this code is punched on the register, the correct price is automatically recorded. This system eliminates price errors, provides the consumer with a detailed register tape and furnishes the supermarket with an up-to-the-minute inventory for purposes of more efficient ordering and control.


MENS WE

J.M. Fields

Continued progress was made by J. M. Fields in building its leadership role in the quality discount department store field.

Three new department stores were opened, in Bedford, New Hampshire, and Delran and West Deptford, New Jersey. One older unit was closed. At the end of the fiscal year, there were 65 J. M. Fields stores in 11 states along the eastern seaboard.

Wherever possible, plans call for a J. M. Fields store to be linked with one of our supermarkets, either under one roof or closeby. Two such units were opened this September in shopping centers in Hallandale, Florida, and Schenectady, New York.

An expansion program has been set calling for the opening of 12 J. M. Fields stores for the coming year. The program contemplates clustering of stores to obtain operational and promotional efficiencies.

Distribution facilities for fashion goods in the New York area were doubled last year. Concurrently, a new 50,000-square-foot office was opened in New York to accommodate Fields' merchandising, store operations, planning, sales promotion and advertising departments.

A Far East buying office was also established in Hong Kong for more efficient purchase and shipment of goods from that section of the world.

MANUFACTURING AND PROCESSING

Our Manufacturing and Processing plants which operate as individual profit centers were all ahead of the previous year in sales and earnings.

As a result of a joint venture with Horn & Hardart Baking Company, Philadelphia, we are expanding our use of H&H's commissary from a bakery operation only, to the processing of raw and prepared foods for retail distribution and also institutional sales to hotels, restaurants, hospitals and schools. An industrial service for "in-plant" feeding is another project which is being undertaken as part of the joint venture.

We shall expand our line of manufactured products to include mayonnaise and salad dressings. Production is expected to start shortly at the H&H commissary.

MEAT SLAUGHTERING OPERATIONS

We began full-scale operations at an enlarged meat slaughtering plant which we purchased and extensively remodeled in Denver, Colorado. Located on a six-acre site, the plant has the capacity for slaughtering 6,000 cattle and 15,000 lambs a week.

The latest equipment for efficient operation has been installed in this plant which is a major supplier of beef to our supermarkets on the east coast.

We also operate meat slaughtering plants in Elizabeth and Newark, New Jersey.

WASHINGTON SQUARE LIFE INSURANCE CO.

Our Washington Square Life Insurance Company subsidiary set new highs in every phase of its operations. Total insurance in force, individual insurance in force, gross income and net income were at record levels.

The major factor leading to these increases was the introduction in 1968 of a "Balanced Investment Program."

This employe benefit plan combines a specially-designed life insurance program with investment in mutual funds. It is mass marketed on a payroll deduction basis through independent insurance brokers and agents of Washington Square, who are also registered representatives of broker-dealers of mutual funds.

In the year ahead, Washington Square intends to broaden its penetration of the insurance and equities field through B.I.P. Services, Inc., a new subsidiary. It will be active in the field of mass marketing a wide range of employe benefit programs, through its own agents and independent insurance brokers.

FOOD FAIR PROPERTIES

Food Fair Properties, Inc., the real estate and shopping center development company, in which we have a 40% interest, set new records in every significant phase of its business for the third consecutive year.

Net income, total income, cash flow, rental income and income from shopping center operations were all at record levels. Net income climbed to $1,010,000, up 61% over the previous year. The profits of Food Fair Properties are not consolidated or reflected in the Company's earnings.

Properties has 45 shopping centers in full operation with gross rentable area of 7,400,000 square feet.

In addition to shopping centers, Properties is the major developer of a $50 million urban renewal project in Newark, New Jersey, consisting of two high-rise office buildings, a 10-story motel, a shopping arcade and a three-level underground parking garage. The 260-room motel will open in November and the first tenants will move into one of the office buildings, a 30-story, 500,000-square-foot structure, in January. The second high-rise, an 18-story, 835,000-square-foot building, is expected to open by September of 1971.

Statistical Summary

Food Fair Stores, Inc. and Subsidiaries

(all dollar figures are in thousands)

Year Ended	Stores at Year-End	Sales	Net Income †	Cash Dividends	Earnings Retained
Aug. 1, 1970	**621**	**$1,762,005**	**$10,636**	**$6,645**	**$3,991**
May 3, 1969*	633	1,555,431	12,062	6,602	5,460
April 27, 1968	620	1,371,781	10,797	6,595	4,202
April 29, 1967	630	1,296,621	12,031	6,606	5,425
April 30, 1966	615	1,204,520	12,504	6,573	5,931
May 1, 1965	587	1,119,640	9,236	6,516	2,720
May 2, 1964*	577	1,105,394	10,034	6,507	3,527
April 27, 1963	551	1,003,344	10,370	6,500	3,870
April 28, 1962	504	923,224	11,055	6,279	4,776
April 29, 1961	437	840,180	11,865	5,647	6,218

***53 weeks*

†Includes Extraordinary Items of $167,000 in 1970, $680,000 in 1969, $61,000 in 1968, $2,730,000 in 1967, $2,046,000 in 1966, $482,000 in 1965, and $2,678,000 in 1964.

Consolidated Statement of

Income

Food Fair Stores, Inc. and Subsidiaries

	Fifty-two weeks ended August 1, 1970	Fifty-three weeks ended May 3, 1969
Sales	$1,762,005,000	$1,555,431,000
Cost of sales	1,419,120,000	1,251,185,000
Gross profit	342,885,000	304,246,000
Operating expenses	317,626,000	280,589,000
Income from operations	25,259,000	23,657,000
Other income	1,450,000	2,223,000
Income before interest expense	26,709,000	25,880,000
Interest expense	7,616,000	5,365,000
Income before taxes on income and extraordinary item	19,093,000	20,515,000
Taxes on income (Note 6)	8,624,000	9,133,000
Income before extraordinary item	10,469,000	11,382,000
Extraordinary item, tax benefit of loss carryover	167,000	680,000
Net income	$ 10,636,000	$ 12,062,000
Income per share of common stock (Note 7):		
Before extraordinary item	$1.43	$1.57
Extraordinary item	.02	.09
Net income	$1.45	$1.66

See notes to financial statements.

Consolidated Statement of

Retained Earnings

Food Fair Stores, Inc. and Subsidiaries

	Fifty-two weeks ended August 1, 1970	Fifty-three weeks ended May 3, 1969
Balance, beginning of period	$72,644,000	$65,725,000
Net income for the period	10,636,000	12,062,000
	83,280,000	77,787,000
Deduct:		
Cash dividends:		
Preferred stock	126,000	154,000
Common stock	6,519,000	6,448,000
	6,645,000	6,602,000
Balance, end of period	$76,635,000	$71,185,000

See notes to financial statements.

Consolidated Statement of

Financial Condition

Food Fair Stores, Inc. and Subsidiaries

ASSETS	August 1, 1970	May 3, 1969
Current assets:		
Cash	$ 18,765,000	$ 17,766,000
Marketable securities, at cost	461,000	507,000
Accounts receivable	54,059,000	43,523,000
Inventories, at lower of cost or market	151,130,000	138,009,000
Prepaid expenses	9,714,000	8,026,000
Real estate in the process of development and sale, net of payments received on account; 1970, $6,250,000; 1969, $5,937,000	4,676,000	2,406,000
Total current assets	238,805,000	210,237,000
Investments:		
Capital stock, Food Fair Properties, Inc., at cost	4,244,000	4,244,000
Other (Note 1)	6,066,000	5,482,000
	10,310,000	9,726,000
Property, plant and equipment, at cost:		
Land	12,509,000	12,514,000
Buildings and improvements	48,028,000	43,928,000
Fixtures and equipment	121,004,000	107,383,000
	181,541,000	163,825,000
Less accumulated depreciation	74,438,000	65,933,000
	107,103,000	97,892,000
Other assets:		
Prepaid expenses, not current	5,200,000	3,980,000
Miscellaneous	2,054,000	821,000
	7,254,000	4,801,000
	$363,472,000	$322,656,000

LIABILITIES AND SHAREHOLDERS' EQUITY	August 1, 1970	May 3, 1969
Current liabilities:		
Notes payable	$ 34,735,000	$ 24,854,000
Accounts payable	64,181,000	52,837,000
Accrued salaries and expenses	28,918,000	27,090,000
Current portion of long-term debt (Note 3)	2,469,000	3,058,000
Income taxes payable	3,900,000	4,665,000
Total current liabilities	134,203,000	112,504,000
Long-term debt, due after one year (Note 3)	87,347,000	76,190,000
Liability for redemption of trading stamps, less portion included in accrued expenses	1,425,000	1,850,000
Deferred Federal income taxes	8,636,000	8,114,000
Shareholders' equity:		
Preferred stock (Note 4)	3,012,000	3,195,000
Common stock (Note 5)	52,214,000	49,618,000
Retained earnings (Note 3)	76,635,000	71,185,000
	131,861,000	123,998,000
	$363,472,000	$322,656,000

See notes to financial statements.

Consolidated Statement of

Source and Use of Funds

Food Fair Stores, Inc. and Subsidiaries

	Fifty-two weeks ended August 1, 1970	Fifty-three weeks ended May 3, 1969
Source of funds:		
Net income	**$10,636,000**	$12,062,000
Depreciation (straight-line method)	**14,167,000**	12,761,000
Increase in long-term debt	**12,076,000**	10,621,000
Increase in deferred Federal income taxes	**552,000**	1,108,000
Decrease in other assets		831,000
Decrease in investments		271,000
Other items	**645,000**	
	38,076,000	37,654,000
Use of funds:		
Cash dividends	**6,645,000**	6,602,000
Property, plant and equipment additions, net	**21,122,000**	22,074,000
Increase in other assets	**154,000**	
Increase in investments	**493,000**	
Retirement of preferred stock	**90,000**	460,000
Other items		160,000
	28,504,000	29,296,000
Increase in working capital	**$ 9,572,000**	$ 8,358,000

See notes to financial statements.

LAVENTHOL, KREKSTEIN HORWATH & HORWATH

CERTIFIED PUBLIC ACCOUNTANTS

1845 WALNUT STREET
PHILADELPHIA PA 19103
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OFFICES THROUGHOUT THE WORLD

To the Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated statement of financial condition of Food Fair Stores, Inc. and Subsidiaries as at August 1, 1970 and the related consolidated statements of income, retained earnings and source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company and Subsidiaries for the fifty-three weeks ended May 3, 1969.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Food Fair Stores, Inc. and Subsidiaries at August 1, 1970 and May 3, 1969, and the results of their operations and the source and use of funds for the fifty-two week and fifty-three week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Laventhol Krekstein Horwath & Horwath

October 2, 1970

Notes To Financial Statements

1. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, except its wholly owned life insurance company.

Investments in this subsidiary and in 50% owned companies are stated at the Company's equity in net assets. All other investments are stated at cost.

2. By action of the Board of Directors on May 6, 1969, the fiscal years of the companies were changed to end on the Saturday nearest to July 31, instead of the Saturday nearest to April 30.

The results of operations for the transition period May 4, 1969 to August 2, 1969 (which are not indicative of a complete fiscal year because of the seasonal nature of certain operations) were as follows:

Sales	$411,550,000
Retained earnings, May 3, 1969	$ 71,185,000
Earnings for the period	3,117,000
	74,302,000
Cash dividends:	
Preferred stock	33,000
Common stock	1,625,000
	1,658,000
Retained earnings, August 2, 1969	$ 72,644,000

3. Long-term debt at August 1, 1970 is as follows:

	Rate	Due within one year	Due after one year	Final maturity
Banks	5-8.5%	$1,741,000	$29,817,000	1972-1975
Mortgages	4.125-10%	414,000	4,078,000	1971-1995
Sinking fund debentures	3.375%	14,000	10,200,000	1974
Subordinated debentures, net of bonds in treasury of $1,165,000	4%		16,748,000	1979
Subordinated notes	8.5%		25,000,000	1984
Other	0-7%	300,000	1,504,000	1971-1985
		$2,469,000	$87,347,000	

Sinking fund debentures require semi-annual sinking fund payments of $500,000 through March 1, 1974. Part of the sinking fund requirements for the year ending July 31, 1971 have been anticipated.

Subordinated debentures require annual sinking fund payments of $966,500. The sinking fund requirements for the year ending July 31, 1971 have been anticipated.

Subordinated notes require annual payments of $2,000,000 beginning December 1, 1974.

The indentures covering the issuance of the debentures and notes described above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Company. The maximum amount of retained earnings so restricted at August 1, 1970 was $45,089,000.

4. Preferred stock is $4.20 cumulative, $15 par; 108,190 shares are authorized, of which 30,122 are issued and outstanding. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

5. Common stock is $1 par; 10,000,000 shares are authorized, of which 7,263,955 are issued, 1,000 are held in the Company's treasury and 7,262,955 are outstanding.

Common stock account transactions during the period from May 3, 1969 to August 1, 1970 were as follows:

	Fifty-two weeks ended August 1, 1970	May 4, 1969 to August 2, 1969
Balance, beginning of period	$49,680,000	$49,618,000
Issuance of common stock:		
Under employees' stock option plans, 281 shares and 2,102 shares, respectively	6,000	47,000
As payment of contribution for the fifty-three weeks ended May 3, 1969 to incentive bonus and retirement trust, 38,440 shares	846,000	
As additional consideration for purchase of subsidiary, 3,000 shares	63,000	
Value assigned to 400,000 warrants issued in connection with subordinated notes	1,600,000	
Excess of stated value over cost of cumulative preferred stock retired, 1,283 shares and 550 shares, respectively	39,000	15,000
Cost of 1,000 shares of common stock acquired for the treasury	(20,000)	
Balance, end of period	$52,214,000	$49,680,000

At August 1, 1970, options to purchase 28,550 shares of common stock were outstanding. These options are exercisable at $21.81 and $22.00 per share and expire April 16, 1974.

At August 1, 1970, warrants to purchase 400,000 shares of common stock were outstanding. These warrants are exercisable at $24.00 per share and expire December 17, 1979.

6. Taxes on income are comprised of the following:

	Fifty-two weeks ended August 1, 1970	Fifty-three weeks ended May 3, 1969
Federal:		
Current	$ 7,239,000	$ 8,007,000
Investment credit	(609,000)	(743,000)
Deferred	1,082,000	1,133,000
State	912,000	736,000
	$ 8,624,000	$ 9,133,000

7. Income per share of common stock is based on weighted average number of shares outstanding during the years. Options and warrants outstanding have no dilutive effect.

8. As a result of its examination of the companies' Federal income tax returns for the year ended April 30, 1963, the Internal Revenue Service has proposed deficiencies in tax, which the companies are protesting. In the opinion of management, based on advice of tax counsel, the final net additional tax will not have a material effect on shareholders' equity.

9. The Company rents the majority of the premises occupied. At August 1, 1970, the minimum annual rental for such premises expiring more than three years after that date amounted to approximately $27,300,000 plus, in some instances, certain taxes, insurance and other expenses.

DIRECTORS

D. FREDERICK BARTON
Partner, Eastman Dillon,
Union Securities & Co.

WILLIAM P. DAVIS, III
Vice Chairman
The First Pennsylvania
Banking & Trust Co.

GEORGE FRIEDLAND
Former Vice Chairman and
President

HAROLD FRIEDLAND
Vice President

JACK FRIEDLAND
President

SAMUEL FRIEDLAND
Chairman of the
Executive Committee

HESS KLINE
Former Vice President
and Treasurer

SAMUEL P. MANDELL
Vice President

MYER B. MARCUS
Vice Chairman of the Board

ARTHUR S. ROSENBERG
Senior Vice President

HERMAN R. SILVER
Vice President

LOUIS STEIN
Chairman of the Board

W. PAUL STILLMAN
Chairman
The First National State
Bank of New Jersey

OFFICERS

LOUIS STEIN
Chairman of the Board
Chief Executive Officer

MYER B. MARCUS
Vice Chairman of the Board

JACK FRIEDLAND
President

ARTHUR S. ROSENBERG
Senior Vice President

DAVID T. FRIEDLAND
Vice President
Director of Store Operations

HAROLD FRIEDLAND
Vice President
Director of Buying and
Merchandising

JACOB I. GOTTLIEB
Vice President
President, J. M. Fields, Inc.

J. ARVID JONSSON
Vice President
Director of Industrial Relations

SAMUEL P. MANDELL
Vice President
Director of Manufacturing

SEYMOUR G. MANDELL
Vice President
Director of Produce Operations

HARRY PRIPSTEIN
Vice President
Director of Grocery Buying
and Merchandising

JOSEPH H. RASH
Vice President
Director of Maryland and
Virginia Operations

HERMAN R. SILVER
Vice President
Director of Meat Operations

B. F. LIEBER
Secretary and Treasurer

LEO DICANDILO
Assistant Secretary

SAMUEL FORMAN
Assistant Secretary

HOWARD S. JACOBSEN
Assistant Secretary

EXECUTIVE OFFICES • 3175 John F. Kennedy Blvd., Philadelphia, Pennsylvania 19101

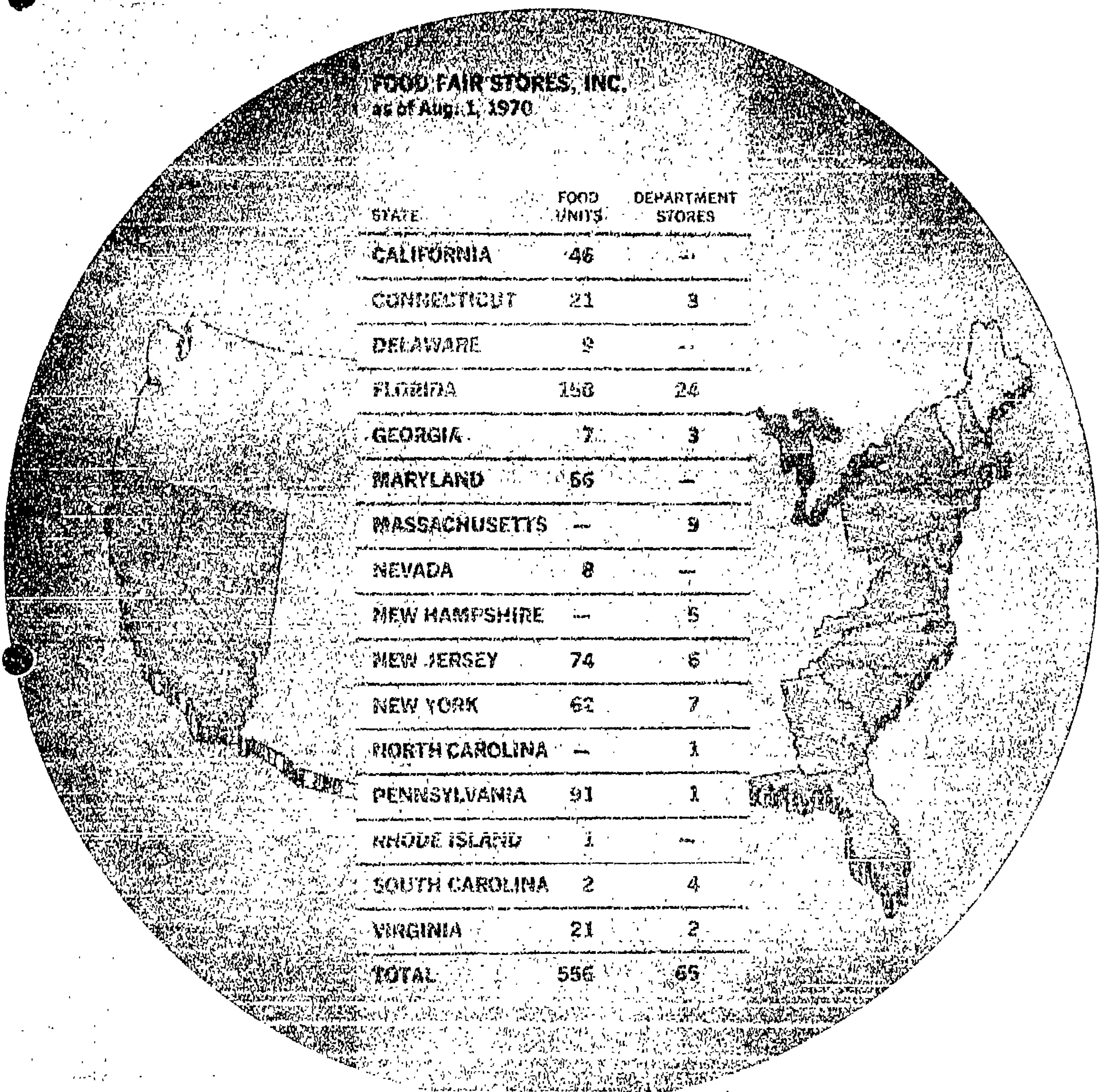
GENERAL COUNSEL • Stein & Rosen, New York, New York

TRANSFER AGENT • Registrar & Transfer Company, New York, New York

REGISTRAR • The Chase Manhattan Bank N.A., New York, New York

CERTIFIED PUBLIC ACCOUNTANTS • Laventhol Krekstein Horwath & Horwath, Philadelphia, Pennsylvania

Food Fair Stores, Inc. preferred stock and common stock are fully listed on the New York, Pacific Coast, and Philadelphia-Baltimore-Washington stock exchanges.



FOOD FAIR STORES, INC.
as of Aug. 1, 1970

STATE	FOOD UNITS	DEPARTMENT STORES
CALIFORNIA	46	—
CONNECTICUT	21	3
DELAWARE	9	—
FLORIDA	158	24
GEORGIA	7	3
MARYLAND	56	—
MASSACHUSETTS	—	9
NEVADA	8	—
NEW HAMPSHIRE	—	5
NEW JERSEY	74	6
NEW YORK	62	7
NORTH CAROLINA	—	1
PENNSYLVANIA	91	1
RHODE ISLAND	1	—
SOUTH CAROLINA	2	4
VIRGINIA	21	2
TOTAL	556	65